

Black Country Housing Needs Assessment Headroom Report

Taylor Wimpey UK Limited

September 2017

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42017/MW/CRo/BEd
14743256v1

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1.0 Introduction

- 1.1 Taylor Wimpey UK Limited [Taylor Wimpey] appointed Lichfields in August 2017 to review the Black Country & South Staffordshire Strategic Housing Market Assessment [SHMA] and subsequent June 2017 Objectively Assessed Need for Affordable Housing. The purpose of this review is to test whether the SHMA provides a robust and valid Objectively Assessed Housing Need [OAHN] for the Black Country & South Staffordshire Housing Market Area [HMA].
- 1.2 This independent assessment of the HMA's OAHN was undertaken to inform representations prepared by Lichfields on behalf of Taylor Wimpey in response to the Black Country Core Strategy [BCCS] Issues and Options Report Consultation Document [CD]. Whilst the CD relates primarily to the Black Country boroughs¹ the SHMA relates to the wider HMA which also includes South Staffordshire.
- 1.3 Following the review of the SHMA's OAHN, Lichfields undertook several PopGroup modelling scenarios to derive a more appropriate OAHN for the Black Country & South Staffordshire. This follows the National Planning Policy Framework [Framework], Planning Practice Guidance [Practice Guidance] and Local Plan Expert Group [LPEG] recommendations. The more appropriate OAHN for the Black Country & South Staffordshire is considered to be 4,692 dpa to 5,473 dpa. This assessment of the Black Country & South Staffordshire's OAHN has been used to inform representations made by Taylor Wimpey in response to the CD.
- 1.4 The report is structured as follows:
- 1 Section 2.0 provides the context for the work and a critique of the proposed OAHN;
 - 2 Section 3.0 sets out our assessment of housing needs, including:
 - a the assumptions used in the demographic and economic modelling;
 - b a consideration of economic growth needs;
 - c analysis of market signals;
 - d a review of the SHMA's approach to assessing the need for affordable housing;
 - e an assessment of the CD's proposals to accommodate Birmingham's unmet housing need within the Black Country & South Staffordshire HMA; and
 - 3 Section 4.0 sets out our conclusions on the Black Country HMA's housing needs.

¹ Dudley Metropolitan Borough Council, Sandwell Metropolitan Borough Council, Walsall Council and the City of Wolverhampton Council

2.0

Context

Critique of the Black Country's OAHN

- 2.1 The SHMA provided the starting point for the CD which identified a housing need of 78,190 dwellings for the Black Country HMA for the period 2014 to 2036; 3,554 dwellings per annum [dpa].
- 2.2 Rather than following a staged approach drawing upon multiple demographic projections as recommended by the Local Plan Experts Group [LPEG] the SHMA solely considers the 2014 based Sub-National Population Projections. This is then increased with an allowance for vacancy rates and an adjustment to take into account past housing delivery identified in the Strategic Housing Needs Study [SHNS]². Only South Staffordshire is uplifted by 25% to account for market signals and economic forecasts. Finally the CD factors in an uplift of 3,000 dwellings to account for Birmingham's need that cannot be accommodated in the wider HMA up to 2031. The housing need identified by the SHMA is summarised in Table 2.1.

Table 2.1 SHMA Housing Need

	Without SHNS adjustment		With SNHS adjustment	
	Total	Per annum	Total	Per annum
Dudley	12,035	547	12,160	553
Sandwell	29,851	1,357	31,898	1,450
Walsall	18,003	818	18,519	842
Wolverhampton	15,613	710	15,528	706
South Staffordshire	5,691	259	5,933	270
Total	81,193	3,691	84,123	3,824
(Of which Black Country HMA)	75,502	3,432	78,190	3,554

Source: Peter Brett Associates (March 2017) Black Country and South Staffordshire Strategic Housing Market Assessment Final report - Table 7.1

- 2.3 The approach to assessing the OAHN is flawed as it does not accord with the Framework, Practice Guidance and LPEG recommendations:
- 1 The Framework states that SHMAs should “*identify the scale and mix of housing and the range of tenures that the local population is likely to need over the plan period which ...meets household and population projections, taking account of migration and demographic change*” [§159]. The SHMA does not consider the need arising from alternative demographic scenarios such as long term migration rates.
 - 2 The Practice Guidance³ states that in assessing demographic-led housing needs, CLG Household Projections form the overall starting point for the estimate of housing needs, but caveats that these may require adjustments to reflect future change and local demographic factors which are not captured in the projections. For example household formation rates may have been suppressed historically by under supply or worsening affordability. Whilst the SHMA considers there is justification to uplift South Staffordshire's need to address

² Peter Brett Associates (August 2015) Strategic Housing Needs Study – Stage 3 Report

³ Practice Guidance Ref: 2a-015-20140306

worsening affordability, there is no attention to historically low household formation rates or the problems of affordability elsewhere within the Black Country.

- 3 The LPEG recommends that consideration is given to an uplift in household formation rates; increasing the 25 to 44 age cohorts to make up half the difference with the 2008-based projections. Again, the SHMA does not consider adjusting for historically low household formation rates.

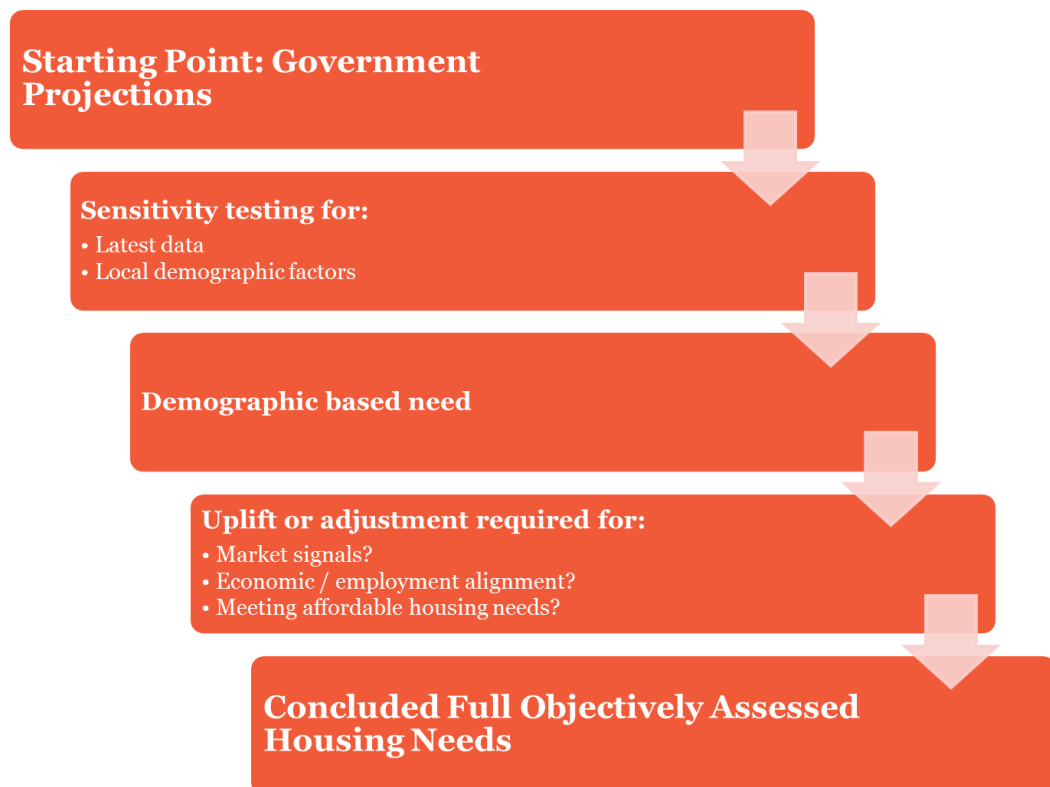
2.4 These points highlight the flawed methodology behind the SHMA, suggesting that the actual OAHN for the Black Country HMA is likely to be different from that proposed in the CD.

3.0 Assessment of Housing Need

Introduction

- 3.1 To test the validity of the identified housing need set out in the CD, Lichfields has undertaken independent demographic and economic modelling to determine the OAHN for the Black Country HMA.
- 3.2 The Lichfields’ approach to applying the Framework and Practice Guidance to arrive at a robust and evidenced OAHN is a staged and logical process. An OAHN must be set at a level that will deliver housing that meets the needs associated with population, employment and household growth, addresses the need for all types of housing including affordable and caters for housing demand [Framework - §159]. Furthermore, the planned level of housing to meet OAHN must respond positively to wider opportunities for growth and should take account of market signals, including affordability [Framework - §17]. This approach is summarised in Figure 3.1.
- 3.3 Lichfields modelled a number of scenarios to establish the need for housing across the Black Country HMA in line with our Headroom framework. This is based on different demographic, economic and housing related factors which draw upon analysis of context and past trends. The assumptions underpinning the assessment are explained below, before the outputs of the modelling are discussed.

Figure 3.1 The Framework and Practice Guidance approach to Objectively Assessing Housing Needs



Source: Lichfields

Assumptions

- 3.4 In addition to the use of the 2014-based Sub-National Population Projections [SNPP] and equivalent Sub-National Household Projections [SNHP], the following inputs have been used in the PopGroup demographic modelling undertaken by Lichfields. The sources of the data used for each input are:
- 1 **Fertility rates** are drawn from the ONS 2014-based SNPP for each local authority area within the Black Country HMA.
 - 2 **Mortality rates** are drawn from the ONS 2014-based SNPP for each local authority area within the Black Country HMA.
 - 3 **Population not in households** (i.e. in institutional accommodation) is taken from the CLG 2014-based SNHP.
 - 4 **Headship Rates** are derived from the 2014-based SNHP with the exception of the Partial Catch Up Rate scenarios. These apply the 2014 SNHP household formation rates until 2017 and then assume that headship rates in the 15-34 age cohorts will return to a level in line with longer term trends, such that by 2033, half of the difference between the 2008-based and 2014-based projections is made up.
 - 5 **Vacant and second homes** data is drawn from the CLG Council Tax Base data between 2014 and 2015 for each local authority area within the Black Country HMA. This has been held constant over the plan period.
 - 6 **Labour force ratio** – Annual Population Survey [APS] and Cambridge Econometrics job growth data, held constant at the 2016 figure to 2036.
 - 7 **Economic activity rates** are projected age and gender specific economic activity rates, based upon the projections that were published by the Office for Budget Responsibility (OBR) in January 2017 and adjusted for each local authority within the Black Country HMA using 2011 Census and the 2011 - 2016 APS and MYE.
 - 8 **Unemployment data** is drawn from the ONS APS model-based estimate. We have assumed that by 2020, the unemployment rate will have fallen back to its pre-recession average in each local authority on the basis that this better reflects the likely rate of unemployment. Post 2020 this rate is held constant.
- 3.5 In all scenarios (with the exception of Scenario A and Scenario Aa) the Mid-Year Population Estimates [MYE] for 2014-16 are taken into account to bring the population in line with the latest available data.

Demographic Starting Point

- 3.6 Using the data inputs and assumptions set out above six demographic scenarios have been modelled for the period 2014-2036:
- 1 Scenario A: 2014-based SNPP;
 - 2 Scenario Aa: 2014-based SNPP with Partial Catch Up Rates;
 - 3 Scenario B: 2014-16 MYE and SNPP Rates;
 - 4 Scenario Ba: 2014-16 MYE and SNPP Rates with Partial Catch Up Rates;
 - 5 Scenario C: Long Term Migration Trends; and
 - 6 Scenario Ca: Long Term Migration Trends with Partial Catch Up Rates.

Scenario A: 2014-based SNPP

- 3.7 This scenario models the 2014-based SNPP and the equivalent SNHP. Under this scenario, over the period 2014-36, there would be an overall population growth of 146,342 across the Black Country HMA (139,468 excluding South Staffordshire). This is due to net in-migration of 34,245, which is much lower than the strongly positive natural change (i.e. more births than deaths) of 112,097. Due to this strong population growth, the number of households in the Black Country HMA would increase by 77,986 over the projection period; this is due to a combination of new household formation of younger cohorts, and a decline in average household size associated with an ageing population. To accommodate this level of growth, there is a need for 80,527 dwellings, or 3,660 dpa (75,969 / 3,453 dpa without South Staffordshire). This is similar to the OAN of 3,824 dpa proposed in the SHMA, with the difference being attributed to different vacancy rates and the SHMA also adjusts for past delivery based on the SHNS.
- 3.8 Based on the change in population age structure, and the suitable application of commuting patterns and adjustments to unemployment, this would accommodate an increase of 76,375 jobs (net) in the Black Country HMA. However, the bulk of this has already occurred, with the CE job growth projections indicating that between 2014 and 2016 the Black Country HMA's workforce increased by 33,625.

Scenario Aa: 2014-based SNPP with Partial Catch Up Rates

- 3.9 The 2014-based SNHP show lower rates of household formation than their 2008-based predecessors, particularly in the youngest age groups. Since the projections take into account recent trends, this is likely to be a result of the reduced rates of household formation seen throughout the economic downturn as a result of factors such as constrained supply of housing, affordability issues and lack of mortgage availability. To simply trend this forward might result in the true housing need of the population being suppressed further, by not providing sufficient housing for the needs of local residents.
- 3.10 Therefore, in addition to modelling the 2014 Headship Rates (Scenario A), Lichfields also modelled a 'Partial Catch-up' [PCU] Headship Rate scenario (Scenario Aa). It assumes that by 2033, half of the difference between the 2008-based and 2014-based headship rates for those ages 15-34 is made up (with this change taking effect from 2017 onwards). This is because the 2008-based SNHP were generated before the recession, and therefore represent household formation rates more in line with longer term trends. By modelling a PCU scenario, it is assumed that any pent-up demand within the population will be released, resulting in higher rates of household formation than projected by the 2014 SNHP. This assumes that household formation returns to a trend more in line with (but not the same as) the higher rates in the 2008-based projections.
- 3.11 By adopting higher household formation rates amongst younger adults, household growth would equate to 84,369 over the period to 2036 (8.2% higher than Scenario A). This would generate a need for 87,116 dwellings, or 3,960 dpa (81,911 / 3,723 dpa excluding South Staffordshire).

Scenario B: 2014-16 MYE and SNPP Rates

- 3.12 Under this sensitivity test scenario, the latest 2014-2016 MYEs were included in the modelling, with the subsequent 2014-based SNPP re-based off a slightly higher resident population in 2016 (1,286,862 rather than 1,283,330). This would accommodate an increase in the overall population growth of 150,858 (143,685 without South Staffordshire), job growth of 78,752

(71,017 without South Staffordshire), and an increase in dwellings of 83,023 or 3,774 dpa (78,416 / 3,564 dpa without South Staffordshire).

Scenario Ba: 2014-16 MYE and SNPP Rates with Partial Catch Up Rates

- 3.13 As above, but with the application of the PCU headship rates. This would accommodate an increase in the overall number of dwellings of 89,692 or 4,077 dpa (84,436 / 3,838 dpa without South Staffordshire).

Scenario C: Long Term Migration Trends

- 3.14 Scenario C models future migration on the basis of long term trends taken from the last ten years (to 2015/16). This shows that total net migration has averaged 754 per annum (i.e. 754 more people arriving in the Black Country HMA than leaving). Interestingly, this was entirely due to immigration from overseas – there was an average net loss of 2,181 residents annually to net domestic migration, whilst +3,688 relates to net international migration. Natural change is strongly positive at 115,648 for the period 2014-2036. Therefore the population of the Black Country HMA increases substantially overall by 154,219 residents.
- 3.15 Under this scenario the level of household growth would be slightly higher than Baseline Scenario A, at 83,027, equating to a housing need of 85,739, or 3,897 dpa (83,154 / 3,780 dpa without South Staffordshire). The number of jobs that could be sustained would increase by 81,701, or 3,714 per year (76,704 / 3,487 per year without South Staffordshire).

Scenario Ca: Long Term Migration Trends with Partial Catch Up Rates

- 3.16 Under this further sensitivity test scenario, population growth and labour force outcomes are the same as for Scenario C; the only input which has been changed is the household formation rates, which dictate household growth and dwelling need.
- 3.17 By adopting higher household formation rates amongst younger adults, household growth would equate to 89,510 over the period to 2036 (7.8% higher than Scenario C). This would generate a need for 92,432 dwellings, or 4,201 dpa (89,245 / 4,057 dpa without South Staffordshire).

Economic Scenarios

- 3.18 Additionally the Practice Guidance⁴ notes that demographic trends should be applied as a starting point when assessing the OAHN, it goes on to state that consideration should also be given to the likely change in job numbers⁵. This supports the importance that the Framework [§158] places on the economy and the requirement to “*ensure that their assessment of and strategies for housing, employment and other uses are integrated, and that they take full account of relevant market and economic signals*”. A failure to take account of economic considerations in the determination of the OAHN would be inconsistent with this policy emphasis.
- 3.19 The SHMA does not use economic led scenarios and instead has applied an uplift of 25% to South Staffordshire’s OAN to account for forecast job growth (the 25% uplift also accounts for

⁴ Practice Guidance Ref: 2a-015-20140306

⁵ Practice Guidance Ref: 2a-018-20140306

market signals). This approach is flawed and conse a number of economic led scenarios were modelled:

- 1 Scenario D: Cambridge Econometrics forecast job growth 2014-36;
- 2 Scenario Da: Cambridge Econometrics forecast job growth 2014-36 with Partial Catch Up Rates;
- 3 Scenario E: Cambridge Econometrics historic job growth 2001-16; and
- 4 Scenario Ea: Cambridge Econometrics historic job growth 2001-16 with Partial Catch Up Rates.

Scenario D: Cambridge Econometrics forecast job growth 2014-36

3.20 The latest CEA forecasts (August 2017) project job growth of 48,023 over the period 2014-36 in the Black Country HMA, equivalent to 2,183 net additional workforce jobs annually (36,873 / 1,676 per annum without South Staffordshire).

3.21 To support this level of job growth, taking into account current commuting patterns and projected changes in economic activity rates (as well as unemployment), there would need to be an increase in the size of the labour force by 3,959. Without South Staffordshire this would change to a decrease of 7,043 as the Borough is a net exporter of labour. Without South Staffordshire this would require population growth of 72,053, of which 106,728 would be through natural change (with net migration being negative). This takes into account the age profile of people who move into and out of the area. This growth would result in an additional 50,409 households across the Black Country HMA but excluding South Staffordshire, generating a need for 52,079 dwellings, equivalent to 2,367 dpa. This is lower than the level generated by the 2014-based SNPP.

Scenario Da: Cambridge Econometrics forecast job growth 2014-36 with Partial Catch Up Rates

3.22 The application of the PCU headship rates would increase the dwelling need to 2,986 dpa (2,623 dpa without South Staffordshire).

Scenario E: Cambridge Econometrics historic job growth 2001-16

3.23 Between 2001 and 2016, the Black Country HMA experienced very strong level of job growth in the order of 19,932, at an average rate of around 1,329 annually (7,639 / 509 per annum without South Staffordshire). This scenario sets out the level of growth required if past trends were to continue at this rate post 2016.

3.24 Under this scenario, there would be a growth of 57,735 jobs over the period 2014-2036. As the population is ageing, more people are required to sustain the workforce, hence the overall housing need would increase to compensate for the fact that comparatively more people would be leaving the workforce to retire. This equates to an overall population growth of 106,305, household growth of 29,124 and a dwelling need of 30,217, or 1,679 dpa (48,563 / 2,207 dpa without South Staffordshire).

Scenario Ea: Cambridge Econometrics historic job growth 2001-16 with Partial Catch Up Rates

3.25 The application of PCU headship rates would increase the dwelling need figure to 3,302 dpa (2,461 dpa without South Staffordshire).

Scenario Outputs

3.26 Table 3.1 summarises the annual dwelling requirement arising from the scenario modelling for each area within the Black Country HMA. This shows that the demographically led Scenario Ca: Long Term Migration with Partial Catch Up Rates forecasts the highest housing requirement of 4,057 dpa. The economic led scenarios indicate that forecast and historic levels of employment growth can be accommodated within the demographically identified need.

Table 3.1 – Housing Need Modelling Results

Scenario	Dudley	Sandwell	Walsall	Wolverhampton	South Staffordshire	Black Country HMA	Total excluding South Staffordshire
Demographic scenarios							
Scenario A: 2014 SNPP	549	1,363	822	719	207	3,660	3,453
Scenario Aa: 2014 SNPP + Partial Catch Up Rates	615	1,448	884	777	237	3,960	3,723
Scenario B: MYPE and 2014 SNPP Rates	575	1,379	867	743	209	3,774	3,564
Scenario Ba: MYPE and 2014 SNPP Rates + Partial Catch Up Rates	643	1,464	929	802	239	4,077	3,838
Scenario C: Long Term Migration	489	1,643	902	746	117	3,897	3,780
Scenario Ca: Long Term Migration + Partial Catch Up Rates	555	1,732	965	804	145	4,201	4,057
Economic scenarios							
Scenario D: Cambridge Econometric Job Growth 2017-39	521	735	550	561	330	2,697	2,367
Scenario Da: Cambridge Econometric Job Growth 2017-39 + Partial Catch Up Rates	588	810	607	617	363	2,986	2,623
Scenario E: Past Job Growth 2001-16	-125	1,259	548	525	798	3,005	2,207
Scenario Ea: Past Job Growth 2001-16 + Partial Catch Up Rates	-69	1,343	606	581	841	3,302	2,461

Source: Lichfields analysis using PopGroup

3.27 The CLG 2014-based household projections indicate there is a need for 80,527 dwellings, or 3,660 dpa (75,969 / 3,453 dpa without South Staffordshire). This is similar to the OAN of 3,824 dpa proposed in the SHMA, with the difference being attributed to different vacancy rates and the SHMA also adjusts for past delivery based on the SHNS.

3.28 In accordance with the Practice Guidance⁶, Lichfields has made adjustments to this starting point to reflect more up-to-date data, specifically the 2014, 2015 and 2016 MYEs. This increases

⁶ Practice Guidance Ref: 2a-016-20150227

the dwelling requirement to 83,023 or 3,774 dpa (78,416 / 3,564 dpa without South Staffordshire).

- 3.29 However, as set out above, the 2014-based SNHP has been affected by the conditions that were experienced during the recession, as well as the effects of rapid house price increases in the early 2000s. It is considered that it is reasonable to assume that rates of household formation and average household size will reflect a change in line with long term trends, as the economy strengthens and peoples' circumstances improve. This is an approach that is recognised by LPEG and accepted by a number of Inspectors elsewhere.
- 3.30 In particular, research by the former National Housing and Planning Advice Unit [NHPAU⁷] found that cohorts who are less able to access home ownership earlier in their housing 'career' due to 'boom' or recessionary factors impacting on affordability are nevertheless able to 'catch up'; 80% of the gap at the age of 30 is 'caught up' by the age of 40. This finding supports the resumption towards long term household formation trends.
- 3.31 Following a suitable adjustment to accelerate the headship rates for younger households under Scenario Ba, it is considered that 89,692 total dwellings are required over the period 2014-36 or 4,077 dpa (84,436 / 3,838 dpa without South Staffordshire). This would be the minimum necessary to meet the Black Country HMA's future housing needs to 2036.
- 3.32 Lichfields' modelling work also suggests that long term migration rates could suggest a higher level of growth (Scenario C 3,897 dpa (3,780 dpa without South Staffordshire)/ Scenario Ca 4,201 dpa (4,057 dpa without South Staffordshire)). Lichfields' general approach is usually to apply the 3,960 dpa SNPP-led figure with Partial Catch Up Rates, which in this instance generates the lower level of housing need. This is because it reflects the starting point for the assessment of OAHN as required by the Practice Guidance. The long term migration scenario is essentially a sensitivity of this starting point that is undertaken to ascertain whether an upward adjustment to the SNPP-based figure is required (as recommended by LPEG), which in this case we consider to be justified.
- 3.33 **Lichfields considers that in this instance, the realistic demographic starting point position is 4,201 dpa (Scenario Ca Long Term Migration Trends with Partial Catch Up Rates), or 4,057 dpa without South Staffordshire.**
- 3.34 The Practice Guidance⁸ is very clear that the demographic baseline represents only the starting point – and not the end point - in the determination of OAHN. Adjustments should also be made, as appropriate, to reflect market signals, economic growth and affordable housing needs.

Economic Growth Needs

- 3.35 The Practice Guidance⁹ requires plan-makers to assess likely employment growth based on past trends and/or economic forecasts. Where the labour force supply is projected to be less than the forecast job growth, the Practice Guidance states that this could result in unsustainable commuting patterns which could potentially reduce the resilience of local businesses.
- 3.36 A number of scenarios have been modelled to demonstrate the impact of a range of likely economic growth scenarios based on existing trends and forecasts. These scenarios show the scale of change that would be required if demographic trends were to be reversed. Each

⁷ NHPAU (2010) How do Housing Price Booms and Busts Affect Home Ownership for Different Birth Cohorts?

⁸ Practice Guidance Ref: 2a-015-20140306

⁹ Practice Guidance Ref: 2a-018-20140306

economic led scenario suggests a lower annual housing requirement compared to the demographically identified need.

- 3.37 The implication of this analysis is to demonstrate that the demographic-based projections would support a reasonable level of employment growth, and that no upward adjustment is required to the demographic-based housing need figures to ensure that the needs of the local economy can be met. Conversely, it is important to recognise that the historic job growth scenario (Ea) generates a level of housing need only marginally lower than the demographically-led starting point (after an adjustment is made for market signals). Therefore the OAHN cannot be any less than this.

Market Signals

- 3.38 The Practice Guidance¹⁰ requires the housing need figure derived by the household projections to be adjusted to take into account market signals. It indicates that comparisons should be made against the national average, the housing market area and other similar areas, in terms of both absolute levels and rates of change. Worsening trends in any market signal would justify an uplift on the demographic-led needs. In addition, the Practice Guidance¹¹ highlights the need to look at longer terms trends and the potentially volatility in some indicators.

- 3.39 The Practice Guidance also sets out that:

“...plan-makers should not attempt to estimate the precise impact of an increase...rather they should increase planning supply by an amount that, on reasonable assumptions...could be expected to improve affordability...”¹².

- 3.40 This clearly distinguishes between the demographic-led need for housing and the market signals uplift. Whilst demographic-led need is generated by population and household growth, market signals uplift is primarily a supply response over and above the level of demographic need to help address negatively performing market signals, such as worsening affordability.

- 3.41 The Practice Guidance¹³ sets out six key market signals:

- 1 land prices;
- 2 house prices;
- 3 rents;
- 4 affordability;
- 5 rate of development; and,
- 6 overcrowding.

- 3.42 The LPEG, in its Report to the Communities Secretary and to the Minister of Housing and Planning (March 2016), recommended various changes to the Practice Guidance concerning the assessment of housing market signals. Instead of analysing six key market signals and considering whether an uplift is justified as the current Practice Guidance states (and which this Section will examine), the LPEG recommends examining just two indicators:

- 1 House price affordability – the ratio of median quartile house prices to median earnings (‘The House Price Ratio’); and,

¹⁰ Practice Guidance Ref: 2a-019-20140306

¹¹ Practice Guidance Ref: 2a-020-20140306

¹² Practice Guidance Ref: 2a-020-20140306

¹³ Practice Guidance Ref: 2a-019-20140306

- 2 Rental affordability – lower quartile rental costs as a percent of lower quartile earnings (The Rental Affordability Ratio’).

3.43 Whilst the LPEG report remains at the consultation stage and has no formal weight, it is a useful indicator of the general direction of travel this area of debate is likely to take. Lichfields has therefore also applied the HPR/RAR tests to the Black Country HMA.

House Prices

3.44 The Practice Guidance¹⁴ identifies that longer term changes in house prices may indicate an imbalance between the demand for and supply of housing. Although it suggests using mix-adjusted prices and/or House Price Indices, these are not available at local authority level on a consistent basis, and therefore for considering market signals in the Black Country HMA, price paid data is the most reasonable indicator.

3.45 Land Registry price paid data displays the median prices in the Black Country HMA, alongside the West Midlands and England as of 2016 and the change since 2002, as set out in the table below. These median prices illustrate lower prices in the Black Country HMA compared to national rates, but some authorities have higher prices than the wider West Midlands region.

Table 3.2 – House Price Data

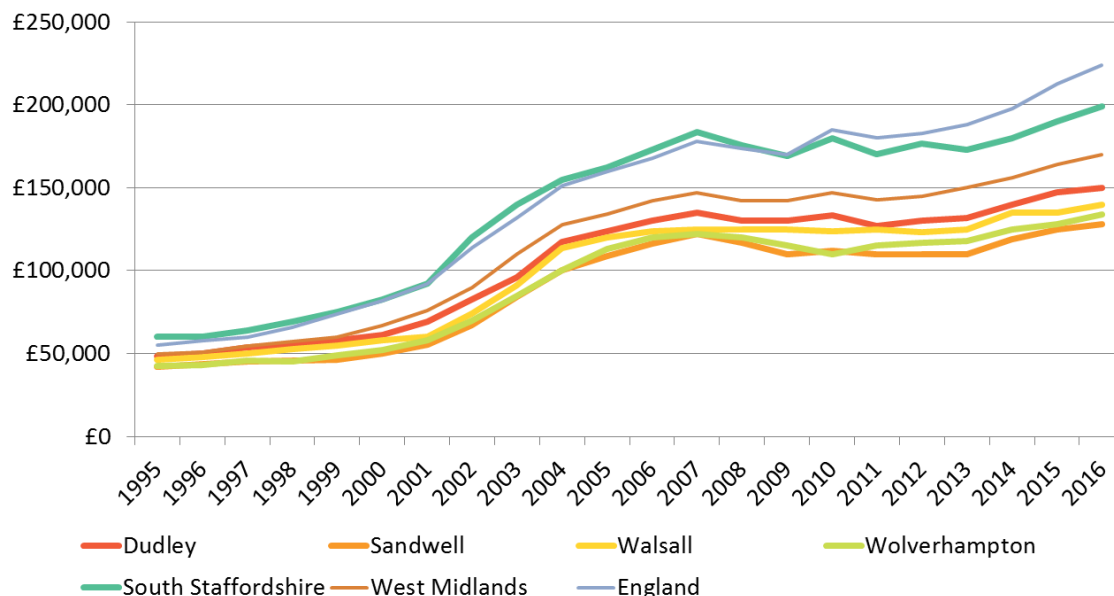
	Median 2016 house price	Change 2002-16
Dudley	£150,000	£67,500
Sandwell	£128,000	£61,000
Walsall	£140,000	£65,750
Wolverhampton	£134,000	£64,050
South Staffordshire	£199,000	£79,050
West Midlands	£152,000	£71,500
England	£224,000	£110,000

Source: Land Registry Price Paid Data

3.46 CLG publishes series data on median house prices based on the same Land Registry price paid data series. This currently runs from 1995 to 2016. This longitudinal analysis is illustrated in Figure 3.2, which indicates that the Black Country HMA has seen comparable levels of house price growth to the regional average, though South Staffordshire has seen house price comparable to the national average. Between 2002 and 2016 prices have increased by £61,000 in Sandwell (91%) up to £79,500 in South Staffordshire (65.9%). This compares with a growth rate of 96.5% nationally and 88.8% across the West Midlands as a whole.

¹⁴ Practice Guidance Ref: 2a-019-20140306

Figure 3.2 - Median House Prices



Source: CLG Live Table 586

- 3.47 As set out in the Practice Guidance¹⁵, higher house prices and long term, sustained increases can indicate an imbalance between the demand for housing and its supply. The fact that median house prices in the Black Country HMA have increased by up to 91.6% between 2002 and 2016 in some parts of the HMA (Wolverhampton), and have risen at a faster rate than comparable regional figures in South Staffordshire (albeit below the national rate), suggests that the local market is experiencing modest levels of stress.

Affordability

- 3.48 The CLG's former SHMA Practice Guidance defines affordability as a 'measure of whether housing may be afforded by certain groups of households'¹⁶. A household can be considered able to afford to buy a home if it costs 3.5 times the gross household income for a single earner household or 2.9 times the gross household income for dual-income households¹⁷. Where possible, allowance should be made for access to capital that could be used towards the cost of home ownership¹⁸.
- 3.49 The Practice Guidance¹⁹ concludes that assessing affordability involves comparing costs against a household's ability to pay, with the relevant indicator being the ratio between lower quartile house prices and lower quartile earnings.
- 3.50 CLG affordability ratios illustrates that whilst 2016 lower quartile house prices are typically 5 to 6 times higher than 2016 lower quartile earnings in the Black Country HMA they are as high as 8.3 in South Staffordshire. In comparison the England average is 7.2. This is summarised in Table 3.3. The affordability ratio highlights a constraint on people being able to access housing in the Black Country HMA. It is particularly severe in South Staffordshire where house price

¹⁵ Practice Guidance Ref: 2a-019-20140306

¹⁶ CLG (April 2007) Strategic Housing Market Assessments Practice Guidance Annex G

¹⁷ CLG (April 2007) Strategic Housing Market Assessments Practice Guidance Page 42

¹⁸ CLG (April 2007) Strategic Housing Market Assessments Practice Guidance Page 42

¹⁹ Practice Guidance Ref: 2a-019-20140306

increases and rental costs have outstripped increases in earnings at a rate well above the national level.

Table 3.3 - Affordability

	2016 Lower Quartile Affordability Ratio
Dudley	6.2
Sandwell	5.6
Walsall	5.9
Wolverhampton	5.4
South Staffordshire	8.3
England	7.2

Source: CLG (March 2017) Housing Affordability in England and Wales

Rents

- 3-51 On a similar basis, high and increasing private sector rents in an area can be a further signal of stress in the housing market. As of March 2017 median rents in the Black Country HMA range from £503 per month in Walsall to £625 in South Staffordshire. Whilst South Staffordshire is above the West Midlands average of £575 per month all areas within the Black Country HMA have lower rents than the national average of £675. Rents have increased by 5.9% in Walsall up to 13.6% in South Staffordshire between June 2011 and March 2017. In comparison this is below both the West Midlands average (15.0%) and the national average (18.4%).

Rate of Development and Under Delivery

- 3-52 The rate of development is intended to be a supply-side indicator of previous delivery. The Practice Guidance states that:

“...if the historic rate of development shows that actual supply falls below planned supply, future supply should be increased to reflect the likelihood of under-delivery of a plan”²⁰

- 3-53 Evidence provided in the CD on past completions shows that the Black Country has under-delivered housing compared to its target delivery in all but three years since 2006/07. Over the whole period there has been under delivery of more than 3,000 houses. This is summarised in Table 3.4. It is noted however that South Staffordshire has exceeded its target of 1,750 dwellings over the period 2006/7 to 2015/16 by 700 dwellings²¹.

Table 3.4 – Housing Delivery

Year	Black Country Core Strategy Housing Target	Actual Completions	Surplus / Deficit
2006/7	2,625	2,838	213
2007/8	2,625	1,829	-796
2008/9	2,625	1,415	-1,210
2009/10	2,625	2,642	17

²⁰ Practice Guidance Ref: 2a-019-20140306

²¹ South Staffordshire Council Authority Monitoring Report 2015-2016

Year	Black Country Core Strategy Housing Target	Actual Completions	Surplus / Deficit
2010/11	2,626	1,951	-675
2011/12	2,625	2,457	-168
2012/13	2,625	2,296	-329
2013/14	2,625	2,145	-480
2014/15	2,625	3,129	504
2015/16	2,635	2,549	-86
Total	26,261	23,251	-3,010

Source: Black Country Core Strategy Issues and Options Report

Overcrowding and Homelessness

- 3-54 Indicators on overcrowding, sharing households and homelessness demonstrate un-met need for housing within an area. The Practice Guidance suggests that long-term increases in the number of such households may be a signal that planned housing requirements need to be increased.
- 3-55 The Guidance states that indicators on:
- “...overcrowding, concealed and sharing households, homelessness and the number in temporary accommodation demonstrate unmet need for housing. Longer term increases in the number of such households may be a signal to consider increasing planned housing numbers...”²²*
- 3-56 The Census measures overcrowding based on a standard formula, which measures the relationships between members of households (as well as the number of people in that household) to determine the number of rooms they require. A rating of -1 or less indicates a household has one fewer room than required, +1 or more indicates a household has one or more rooms than needed. At the national level, affordability issues in recent years, as well as a shortfall in housing supply, have meant that people are either willing to accept sub-optimal living conditions (e.g. living in a smaller home to manage costs) or are forced into accepting such housing outcomes (e.g. are priced out of the market and have to share with friends/family).
- 3-57 2011 Census data indicates that overcrowding against the occupancy rating is an issue in some but not all authorities within the Black Country HMA. It ranges from 3.3% in South Staffordshire to 8.1% in Wolverhampton and 8.7% in Sandwell. In comparison the West Midlands average is 9.2% and the England average is 8.7%. However Sandwell saw a 2.1 percentage point increase from the 2001 Census, which is above the West Midlands increase of 1.9 percentage points and also above the England increase of 1.6 percentage points.
- 3-58 The 2011 Census also recorded the number of concealed families (i.e. where there is more than one family present in a household). Nationally, this rose significantly between 2001 and 2011, at least in part due to the impact of the recession on younger households’ ability to afford their own home. This meant that many younger people, including families, remained in the family home for longer than might have been expected in the past, either through choice (to save money) or through necessity.

²² Practice Guidance Ref: 2a-019-20140306

- 3.59 At the time of the 2011 Census, 1.9% of all families in England were concealed; this represented 275,954 families. This is a rise compared to 2001 when 1.2% of families were concealed. Levels of concealed families are higher than the national average in all parts of the Black Country HMA except Dudley (1.7%) and South Staffordshire (1.5%). The wider West Midlands region has an average of 3.0%; both Wolverhampton (3.2%) and Sandwell (3.6%) exceed this.
- 3.60 The levels of overcrowding may be a symptom associated with restricted incomes in the Black Country HMA, with people either willing to accept sub-optimal living conditions (e.g. living in smaller houses to manage costs) or forced into accepting such housing outcomes (e.g. are priced out and have to share with friends/family). In such circumstances, overcrowding and concealed households may be indicative of insufficient supply to meet demand.

LPEG Market Signals Sensitivity Test

- 3.61 The LPEG includes a standardisation of the appraisal of market signals and the extent of any uplift to the demographic starting point. The LPEG Report suggests taking account of just two market indicators (Appendix 6), namely the House Price Ratio and the Rental Affordability Ratio.
- 3.62 The Report suggests that, based on data by CLG, LPAs should apply an upward adjustment to the demographic starting point in line with the following benchmarks:
- 1 Where the House Price Ratio [HPR] is less than 5.3 and Rental Affordability Ratio [RAR] is less than 25%, no uplift is required;
 - 2 Where HPR is at or above 5.3 and less than 7.0, and/or the RAR is at or above 25% and less than 30%, a 10% uplift should be applied;
 - 3 Where the HPR is at or above 7.0 and less than 8.7, and/or the RAR is at or above 30% and less than 35%, a 20% uplift should be applied; and
 - 4 Where the HPR is at or above 8.7 and/or the RAR is at or above 35%, a 25% uplift should be applied.
- 3.63 Based on this assessment each authority within the Black Country HMA is identified as an area where a market uplift of 10% is required. Whilst the findings of the LPEG report are yet to be adopted as Government guidance it is considered that an uplift of at least 10% is appropriate for each authority within the Black Country HMA.

Synthesis of Market Signals

- 3.64 Drawing together the individual market signals above begins to build a picture of the current housing market in the Black Country HMA; the extent to which demand for housing is not being met; and the adverse outcomes that are occurring because of this. The key messages from the market signals can be summarised as:
- 1 Whilst house prices remain below the national average they have increased significantly across the Black Country HMA and especially South Staffordshire where prices are higher than the regional average;
 - 2 Lower quartile affordability ratios exceed the Practice Guidance standard of 3.5 times the gross household income for a single earner household in each authority within the Black Country HMA, and South Staffordshire exceeds the England average;
 - 3 There has been significant under delivery of more than 3,000 dwellings against the Black Country's target requirement for the period 2006/7 to 2015/16;

- 4 Overcrowding is as high as the national average in some parts of the Black Country HMA and there has been a notable change between 2001 and 2011 worse than the national average in Sandwell; and,
- 5 Levels of concealed families are higher than the national average (1.9%) in all parts of the Black Country HMA except Dudley (1.7%) and South Staffordshire (1.5%), and both Wolverhampton (3.2%) and Sandwell (3.6%) exceed the West Midlands average of 3%.

3.65 The Practice Guidance²³ is clear that:

*“A worsening trend **in any** of these indicators will require upward adjustment to planned housing numbers compared to ones based solely on household projections”*

3.66 The Black Country and South Staffordshire sub-market area SHMA stated that only South Staffordshire warranted an uplift. However Lichfields’ market signals toolkit indicates that there is justification to uplift the Black Country HMA’s demographically identified need in each of its constituent Local Authority areas.

3.67 Given the trends identified through Lichfields’ detailed assessment of Market Signals in compliance with the Practice Guidance, together with the uplift recommended by the LPEG approach to OAN, there is justification to improve affordability in the Black Country HMA. An adjustment in the order of **10%** to the demographic starting point is considered to be appropriate in each authority within the Black Country HMA. This would increase the OAN to **4,622 dpa** (4,462 dpa without South Staffordshire).

Affordable Housing Need

3.68 The Practice Guidance states that, with regard to taking into account affordable housing needs:

“The total affordable housing need should then be considered in the context of its likely delivery as a proportion of mixed market and affordable housing developments, given the probable percentage of affordable housing to be delivered by market housing led developments. An increase in the total housing figures included in the local plan should be considered where it could help deliver the required number of affordable homes.”²⁴

3.69 The inclusion of affordable housing needs in OAHN calculations has also been established in the High Court Decision between Satnam Millennium Ltd vs Warrington Borough Council²⁵ which sets out the requirements of an OAHN to cater for affordable housing needs in its calculation. The decision found that the adopted OAHN figure proposed in Warrington’s Local Plan was not in compliance with policy because *“the assessed need was never expressed or included as part of the OAHN”* [§43]. The decision found that the *“proper exercise”* had not been undertaken, namely:

“(a) having identified the OAN for affordable housing, that should then be considered in the context of its likely delivery as a proportion of mixed market/affordable housing development; an increase in the total housing figures included in the local plan should be considered where it could help deliver the required number of affordable homes;

²³ Practice Guidance Ref: 2a-020-20140306

²⁴ Practice Guidance Ref: 2a-029-20140306

²⁵ [2015] EWHC 370 (Admin) Case No: CO/4055/2014 <http://www.bailii.org/ew/cases/EWHC/Admin/2015/370.html>

(b) *the Local Plan should then meet the OAN for affordable housing, subject only to the constraints referred to in NPPF, paragraphs 14 and 47.”*

3.70 As such, the below calculations of affordable housing need must be considered in the conclusions of objectively assessed housing needs for the Black Country HMA.

3.71 The SHMA June 2017 Objectively Assessed Need for Affordable Housing indicates a net affordable housing need of 770 dpa for the Black Country HMA. This is based upon an affordability test where the cost of housing can constitute up to 30% of gross income and still be affordable in the Black Country local authorities and up to 35% in South Staffordshire. The CD proposes a requirement of 25% affordable housing on future deliverability, whilst recognising that some sites may not be able to viably deliver this.

3.72 Table 3.5 summarises the proposed OAN and affordable housing need for each local authority in the Black Country HMA. This shows that the proposed OAN is insufficient to meet the 25% affordability requirement in Dudley and South Staffordshire. To go some way towards making a meaningful contribution to reducing the affordable housing need, an additional uplift should be applied in accordance with the Practice Guidance. A 10% uplift in Dudley and South Staffordshire’s OAN is considered appropriate to support the delivery of affordable housing. This is based on the level of affordable housing need and the shortfall in the OAN proposed by the SHMA.

Table 3.5 – Affordable Housing Uplift

	SHMA OAN with SHNS adjustment (dpa)	Net affordable housing need	OAN affordable housing delivery test at 25%	Affordable housing need uplift required?
Dudley	533	216	133	Yes – 10%
Sandwell	1,450	244	363	No
Walsall	842	86	210	No
Wolverhampton	706	131	177	No
South Staffordshire	270	92	68	Yes – 10%
Total	3,824	677	956	

Source: PBA (March 2017) Black Country and South Staffordshire Strategic Housing Market Assessment. Lichfields’ analysis

3.73 LPEG suggests that where the total number of homes that would be necessary to meet affordable housing need is greater than the adjusted demographic-led OAHN, then this figure should be uplifted by a further 10%. It should be noted that the 10% uplift is specifically intended to provide a streamline approach that removes judgement and debate from the process of setting OAN (as opposed to what might be the most accurate under current Practice Guidance) and given the status of LPEG at present, this approach should be treated with caution.

3.74 The SHMA [Table 5.14] tests adjustments to the affordability of housing. A 30% threshold of gross household income across all local authorities would increase the net affordable housing need to 865 dpa. A threshold of 25% would increase the net affordable housing need to 1,643 dpa. If the affordable housing requirement is revised to consider a 30% or 25% gross household income threshold this would make it harder to deliver the proposed requirement of 25% affordable housing with the current proposed OAN, and therefore likely require uplifts in other authorities within the Black Country HMA.

- 3.75 An uplift to Dudley and South Staffordshire's OAN of 10% to account for affordable housing need would increase the Black Country HMA's OAHN to **4,692 dpa** (4,518 dpa without South Staffordshire).

Accommodating Birmingham's Growth

- 3.76 The CD assumes that the Black Country HMA will accommodate part of Birmingham's needs with 3,000 dwellings up to 2031 to help address the shortfall in the wider HMA. Taylor Wimpey considers that this proposal is insufficient and would not address Birmingham's shortfall.
- 3.77 The SHMA sets out that there is a housing deficit of 37,572 houses in the total housing market area (Birmingham and Black Country sub-markets combined) up to 2031. Stratford has agreed to take 3,300 of Birmingham's shortfall, with North Warwickshire agreeing to take 3,800 houses and Solihull agreeing to take 2,000 of the shortfall. On this basis, there remains a deficit of 28,472 houses which needs to be split between the remainder of the LPAs within the HMA.
- 3.78 Based on the 2014 Sub-national population projections, Lichfields has looked at the population within each of the remaining LPAs and calculated how the remainder of the deficit could be split on a proportional basis. Table 3.6 sets out the results of this analysis.

Table 3.6 – Birmingham Housing Deficit

Local Planning Authority	Population	Proportion of total HMA (excluding Solihull, North Warwickshire and Stratford on Avon)	Housing deficit to be absorbed (number of dwellings)
Bromsgrove	95,500	5.5%	1,573
Cannock Chase	98,500	5.7%	1,623
Lichfield	102,100	5.9%	1,682
Redditch	84,500	4.9%	1,392
Solihull			2,000 (fixed)
Tamworth	77,100	4.5%	1,270
North Warwickshire			3,800 (fixed)
Stratford on Avon			3,300 (fixed)
Dudley	315,800	18.3%	5,203
Sandwell	316,700	18.3%	5,218
Walsall	274,200	15.9%	4,518
Wolverhampton	253,000	14.6%	4,168
South Staffordshire	110,700	6.4%	1,824
Total HMA	1,728,100	100%	37,571

Source: CLG (May 2016) 2014-based Sub-National Population Projections. Lichfields' analysis

- 3.79 This analysis is based purely on a proportional 'fair share' approach, and further evidence is required to investigate the feasibility of distributing Birmingham's need across the authorities in the wider HMA. However, smaller authorities within the HMA are likely to struggle to accommodate a significant proportion of Birmingham's unaccommodated need. For example Tamworth is struggling to accommodate its own needs, let alone further growth. Additionally the current analysis only considers Birmingham's needs up to 2031, whilst the CD considers the period up to 2036; our approach therefore assumes that the annual requirement will continue

up to 2036. The issue of Birmingham's unaccommodated need was raised in stages 1 to 3 of the SHNS (dating from January 2014 to August 2015). Taylor Wimpey would therefore welcome more recent evidence on the feasibility of accommodating Birmingham's housing growth need across the wider HMA.

- 3.80 The proportionate 'fair share' approach indicates that the CD proposals to accommodate 3,000 dwellings of Birmingham's needs significantly underestimates its fair share and level of responsibility to support the growth of the wider HMA. On this basis the Black Country HMA should accommodate up to 20,931 dwellings for the period to 2031 (19,107 without South Staffordshire). This equates to an annual level of 1,047 dwellings (955 dpa without South Staffordshire).
- 3.81 This approach would give the Black Country HMA a revised OAN of **4,692 dpa to 5,473 dpa** (4,518 dpa to 5,473 dpa without South Staffordshire).

4.0 Conclusions on Black Country HMA's Housing Need

4.1 The scale of objectively assessed need is a judgement and the different scenarios and outcomes set out within this report provide alternative levels of housing growth for the Black Country HMA. Lichfields considers these to be as follows:

- 1 3,545 hpa equates to the 2014-based SNHP. With suitable adjustments to include an allowance for second/vacant homes; the latest 2016 MYE; and necessary adjustments being made to headship rates in the younger age categories, this would generate a need for 4,077 dpa. Factoring in long term migration rates would increase this further to **4,201 dpa** (4,057 dpa without South Staffordshire). It is considered that this represents the suitable demographic starting point for the Black Country HMA.
- 2 A modest worsening of some market signals and consistent under-delivery of housing in the Black Country HMA suggests the need to improve affordability to stabilise increasing house prices and high affordability ratios. This would justify an uplift to the figures over and above the level suggested by the demographic projections. The Practice Guidance²⁶ states that this should be set at a level which could be reasonably expected to improve affordability. A modest 10% uplift is considered appropriate in this instance. Applying this level of uplift to the demographic starting point would indicate a minimum demographic OAHN of **4,622 dpa** (4,462 dpa without South Staffordshire).
- 3 The scale of affordable housing needs, when considered as a proportion of market housing delivery, implies higher levels of need over and above the OAHN figure for Dudley and South Staffordshire. It is considered that to make a meaningful contribution to addressing the level of affordable housing need identified by the SHMA (770 dpa), a further 10% uplift should be applied. This would increase the OAHN to **4,692 dpa** (4,518 dpa without South Staffordshire); significantly above the SHMA's proposed OAHN of 3,824 dpa and the CD proposed target of 3,554 dpa.
- 4 In addition to the Black Country HMA's OAHN there is a need to accommodate Birmingham's unmet housing need. The CD proposes to accommodate 3,000 dwellings of Birmingham's needs up to 2031. However a proportionate 'fair share' approach based on the population distribution across the wider HMA, and accounting for fixed commitments made by Solihull, North Warwickshire and Stratford on Avon, suggests that the Black Country HMA should accommodate up to 20,931 dwellings for the period to 2031 (19,107 without South Staffordshire). This equates to an additional 1,047 dpa above the OAHN, giving a revised OAHN of **4,692 dpa to 5,473 dpa** (4,518 dpa to 5,473 dpa without South Staffordshire).

4.2 It would be appropriate to revisit these conclusions once the Government's new, simplified and standardised, methodology for calculating OAHN is published for consultation (expected in September 2017).

²⁶ Practice Guidance Ref: 2a-020-20140306

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